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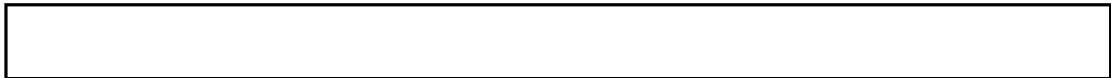


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The initiation of guided missile production by the USSR is indicated by several recent reports and by the logic of Soviet development work in this field to date.

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THE SOVIET WORLD

The Far East's current prominence in Soviet foreign policy considerations was underlined during the past week when Stalin addressed a precedent-breaking New Year's message to the Japanese people and Foreign Minister Vyshinsky had some ominous things to say about Southeast Asia at the General Assembly in Paris.

Premier Stalin made an unusual bid for Japanese friendship reminiscent of his overtures to the Germans when the East German government was established in October 1949, which emphasized the potential of the Soviet and German peoples for "accomplishing great actions of world importance."

The message to Japan is notable for its weakness, however, reflecting the USSR's realization that, whereas it has one foot in Germany, its position in Japan rests more on the threat of geographical proximity. Stalin felt it necessary to explain why the Soviet Premier should address the people of another state. He also showed preoccupation with the "foreign occupation" of Japan, which limits the effectiveness of any approach by Moscow to the problem of Soviet-Japanese relations. Stalin's fulsome expressions of sympathy with the "suffering" Japanese people thus constitute an appeal to those nationalist and neutralist elements whose opposition to the continued presence of American troops would, if kindled, become a source of embarrassment and perplexity to the US Government.

Vyshinsky at Paris advanced a proposal to call a special meeting of the UN Security Council for the purpose of dealing with East-West tensions, with an armistice in Korea as the first item on the agenda. As usual, he reinforced his proposal with vituperation and threats centered about accusations that the United States was transporting Chinese Nationalist troops to Thailand, Burma and Indochina. Similar charges had previously been made by Peiping. Vyshinsky declared that the United States would undoubtedly portray these actions as defensive measures whenever "events begin to take their course on the southern borders of China."

The latest Soviet move at Paris is an attempt to draw support away from Western efforts to strengthen the UN's collective security system. The Russian proposal would discard the year-old Western blueprints for veto-free General Assembly action to combat new aggressions and substitute top level Security Council consultation on "measures to reduce international tension."

The Kremlin is dangling before the UN the prospect of immediate big-power talks on the prolonged Korean negotiations, apparently with the hope that some nations would seize upon these talks rather than support a slow build-up of the UN's capability for collective action. The Soviet proposal for high-level talks has in fact drawn some support from Arab states.

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Recent demonstrations by Czech and Hungarian workers against conditions in their countries are forceful evidence of mounting worker unrest in the Satellites. A hotel in Karlovy Vary, Czechoslovakia, reportedly marked for use by the military in 1952, was burned, and workers at Skoda's Pilsen works refused to listen to a speech by Premier Zapotocky in which the plant was to be renamed the Lenin Works.

Despite these evidences of dissatisfaction, the Czechoslovak Government has announced a discriminatory food rationing plan designed to force additional labor into industry. A similar plan has been in effect in Poland for several months following a series of serious industrial strikes caused by lack of food and consumer goods.

Budapest has been swept by a buying panic, reflecting popular alarm caused by rumors of a pending currency reform. Employees of a large Budapest body works reportedly engaged in some violence on 23 December when the management failed to meet the payroll. The workers were reportedly still on strike after the holidays.

THE SOVIET INVESTMENT IN COMMUNIST CHINA

The Soviet investment in Communist China can be divided into two principal categories, military and economic. On the military side the Soviet Union is underwriting the cost of modernizing China's air force, ground forces and navy; in the economic field, the USSR is directing a substantial flow of Soviet goods and personnel into Chinese Communist industry.

Air Force. The Chinese Communist Air Force is a Russian creation,

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Ground forces.

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the National Day parade in Peiping on 1 October offered visible evidence that the Chinese Communist ground forces were supplied with such Soviet weapons and equipment as T-34 medium tanks, the JS-1 and JS-2 heavy tanks, the 122 mm self-propelled gun JSU-122, the M-13 rocket launcher, and Russian motor vehicles.

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Navy. Reports of transfers of Soviet equipment to the small Chinese Communist Navy are numerous but unconfirmed. Typical of such reports is one alleging the transfer of 73 surface vessels aggregating over 40,000 tons. Another mentioned 12 submarines. The sighting of submarines flying the Chinese Communist flag supports information of submarine transfers, although such sightings are not regarded as conclusive evidence of Chinese ownership.

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Industrial shipments. Historically unimportant in China's foreign commerce, the USSR has now become the principal supplier to the Chinese Communists of the strategic goods which can no longer be obtained in desired quantities from the West. According to Peiping, nearly half of all shipments to China in 1951 came from the USSR. On the assumption that China's foreign trade in 1951 was, as Peiping states, somewhat higher than the 1950 level (fairly firm figures are available for 1950), this would place Soviet shipments to China in 1951 in the neighborhood of 300 million dollars.

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China's ability to find new sources of supply in the USSR effectively countered Western economic sanctions, according to a recent Peiping announcement.

The allocation to China of petroleum products and other strategic goods, scarce in the Soviet Far East, is a sacrifice that the USSR can justify on the ground that it effectively advances Soviet political and military objectives in that area. From the purely financial viewpoint, however, only the excess of Soviet exports to China over return shipments would be regarded in the category of investment. The amount of this excess, covered by Russian loans to China, is undetermined. The only loan agreement which has been publicized provides for the extension of a 300 million dollar credit at the rate of 60 million dollars annually, starting in 1950. Reports of additional credits have been received but not confirmed.

Technical aid. Possibly 20 to 30 thousand Soviet advisers and technicians are stationed in Communist China, the majority of them assigned to the Chinese Communist armed forces. Non-military Soviet

Joint Stock Companies. Substantial Soviet funds have been invested in China through the instrument of the Sino-Soviet joint stock company. Although theoretically allowing equal participation by Russians and Chinese, the joint stock company is well adapted to advance the Soviet position in China's border areas, as it has in the European Satellites. Among the joint stock organizations formed by agreement with Peiping is the Sino-Soviet Civil Aviation Corporation, which now monopolizes civil air in Sinkiang, Manchuria, and North China. In the province of Sinkiang, Russian entrenchment has been further promoted by the organization of Sino-Soviet companies to exploit the oil and nonferrous metal resources of the area.

The China investment has brought the USSR early returns. It has bolstered Communist military opposition to the UN fighting forces; it has sustained China's resistance to Western economic sanctions; and it has increased Peiping's military and economic dependence on Moscow. Far from showing any signs of disappointment over the yield on its investment, the Soviet Union appears prepared to allocate additional funds and resources to Communist China.

REORGANIZATION OF SOVIET FOREIGN TRADE

Extensive changes in the Soviet Ministry of Foreign Trade, under way since late 1951, are mainly the results of Moscow's efforts to rationalize the administrative set-up of the Ministry, but they also suggest an anticipation of a limited increase in trade with the Middle East.

These changes have included the issuance in the fall of 1951 of charters for three agencies to conduct Soviet foreign trade, and the appointment in November 1951 of former Deputy Minister of General Affairs P. N. Kумыкин, as Minister of Foreign Trade, replacing M. A. Menshikov, who had held this position since 1949.

Before 1948, Vostokintorg, one of the three agencies, was responsible for Soviet trade with Turkey, Iraq and Afghanistan. In 1948 its operations were expanded to include "the Middle East and other countries," but this terminology was not clarified. All that is definitely known is that Mongolia was handled by Sovmongoltorg and Sinkiang by Sovsintorg, two trading agencies set up for these areas. The 1951 reorganization gave Vostokintorg responsibility for trade operations with Afghanistan, Iran, Mongolia and Sinkiang, thereby implying the abolition of Sovmongoltorg and Sovsintorg.

Under the new arrangement, Soviet trade with Iraq and Turkey will be carried on by individual commodity corporations rather than by agencies organized on a geographical basis. This change is part of a continuing development in the organization of Soviet foreign trade. Commodity corporations are responsible for trade with Europe, and with the recent increase in trade with China have also moved into that area.

Vostokintorg apparently remains the only Soviet export-import corporation organized with an area rather than a functional responsibility. Although the capitalization of Vostokintorg at 47.2 million rubles, 40 million more than previously, suggests an anticipated increase in trade with the specified area, this increase is probably accounted for in part by the organization's absorption of Sovmongoltorg and Sovsintorg.

The second new agency, Soyuzvneshttrans, which merges three existing regional transport organizations, is charged with arranging shipments of imports and exports by various means of transport. The regional organizations had become hopelessly over-extended in their operations and a reorganization along functional lines may have been the only ready means of bringing order out of the existing confusion.

The establishment of the third agency, Soyuzkhimeksport, has been linked in the Soviet press with the liquidation of Dalintorg, one of the now defunct regional holding organizations which dealt exclusively with the Far East.

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Soyuzkhimeksport is charged with the export and import of chemical and medical products with no definite geographical limitations and is already operating in Eastern Europe. Its relation to the old Dalintorg is probably based on the utilization of Dalintorg personnel and facilities made available by that organization's abolition.

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SPECIAL ARTICLE

SOVIET GUIDED MISSILES PRODUCTION PROGRAM*

There has been considerable evidence in recent months that the Soviet Union, in addition to its continuing research, is now initiating a guided missile production program. The program is probably based on improved versions of guided missiles which German scientists could not perfect for production because of other demands of World War II, but on which extensive documentation and test data existed.

Although the Russians did not have a guided missiles research program at the end of World War II, they recognized the potential of such weapons, and began as early as 1945 to take over the German program as their own. Key German scientists, technicians, and test equipment were exploited for the purpose of reconstituting the German projects and reviving the research work. This effort was first centered in the East Zone of Germany, and in 1947-48 was moved to the USSR.

By 1948, the Soviet Union, from the standpoints of theory, development, test and prototype production, had reached a stage of general knowledgeability equal to that of the Germans at the end of World War II. At this point, known German operational designs could have been "frozen" and placed in production.

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Developmental work in the surface-to-surface field was apparently centered on the ballistic V-2 type rocket and the winged V-1 type missile powered by either one or two pulse jet engines.

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*Prepared by O/SI.

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The Russian guided missile program appears to have been generally frozen in design in the interests of early production, as was done in the case of the MIG-15. However, such designs are not so effective as contemplated US equivalents.

The Russians, like any modern military power, have a requirement

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for guided missiles.

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[redacted] In light of the known missile work that the USSR has undertaken and the evidence, although fragmentary, of the progress that has been made, it would be hazardous to assume that the Soviet Union is not now engaged in a guided missiles production program.